

subject to risks in addition to overall interest-rate movements and the issuers' ability to pay the debt in accordance with its terms. For example, were the Capital Strategy Fund to invest in syndicated debt such as loan participations, it would be subject to certain additional risks as a result of having no direct contractual relationship with the borrower of the underlying loan. In such circumstances, the Capital Strategy Fund generally depends on the lender to enforce its rights and obligations under the loan arrangements in the event of a default by the borrower on the underlying loan and will generally have no voting rights with respect to the issuer, as such rights are typically retained by the lender. Such investments are subject to the credit risk of the lender (as well as the borrower) since they will depend upon the lender forwarding payments of principal and interest received on the underlying loan. There can be no assurance that the lender will not default on its obligations under such arrangements, resulting in substantial losses to the Capital Structure Fund.

Convertible Securities

The Capital Structure Fund invests in convertible securities that it may acquire in the open market or directly from issuers, their affiliates and others. The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A contingent convertible security (known as "Co-Cos") is a hybrid security that is only convertible under certain conditions (for example, the right to convert can only be exercised if the price of the underlying stock is a certain percentage over the conversion price). A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Capital Structure Fund is called for redemption, the Capital Structure Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Furthermore, an issuer could refuse to permit the Capital Structure Fund to convert the convertible security into the underlying common stock, despite its obligation to do so. Any of these actions could have an adverse effect on the Capital Structure Fund's ability to achieve its investment